

Management Integrity and Accountability

Interior believes that maintaining integrity and accountability in all programs and operations: (1) is critical for good government; (2) demonstrates responsible stewardship over assets and resources in our care; (3) ensures high quality, responsible leadership; (4) ensures the sound delivery of services to customers; and (5) maximizes desired program outcomes. Interior has developed and implemented management, administrative, and financial system controls which reasonably ensure that:

- programs and operations achieve their intended results efficiently and effectively;
- resources are used in accordance with Interior's mission;
- programs and resources are protected from waste, fraud, and mismanagement;
- laws and regulations are followed; and
- reliable, complete, and timely data are maintained and used for decision-making at all levels.

Further, Interior firmly believes that the timely implementation of Inspector General and General Accounting Office audit recommendations is essential to improving efficiency and effectiveness in its programs and operations, and achieving integrity and accountability goals. As a result, Interior has instituted a comprehensive audit followup program to ensure that audit recommendations are implemented in a timely and cost-effective manner, and that disallowed costs and other funds due from contractors and grantees are collected or offset.

Management Control Program

Interior's re-engineered management control program ensures full compliance with the goals, objectives and requirements of the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123, Management Accountability and Control. Since the inception of the

ANNUAL ASSURANCE STATEMENT FISCAL YEAR 1998

Based upon the results of its annual assessment process, with the exception of the Office of the Special Trustee and certain administrative program areas within the Bureau of Indian Affairs, the Department can provide reasonable assurance that its systems of management, accounting and administrative control, taken as a whole, achieve the objectives of Section 2 of the FMFIA. The Department can also provide reasonable assurance that its accounting and financial systems generally conform to the Comptroller General's principles, standards and related requirements and achieve the objectives of Section 4 of the FMFIA.



Secretary of the Interior

FMFIA in 1982, Interior has identified and reported 163 material weaknesses and 64 accounting system non-conformances. At the end of 1998, Interior had corrected 147 of the material weaknesses (90 percent) and all 64 accounting system non-conformances. As noted in *Figures 34 and 35*, over the last five years, Interior has reduced the total number of reported material weaknesses from 28 to 16 (43 percent) and the number of accounting system non-conformances from 6 to 0. This progress in correcting material weaknesses and accounting system non-conformances exemplifies Interior's strong commitment to improving integrity and accountability in all programs, organizations, and functions.

New Innovative Approach to Management Control Assessments

In October 1996, Interior completed a Management Control Re-engineering Laboratory that among other things, produced a new, automated, and less resource-intensive approach for targeting and conducting management control assessments. This automated approach is built around eight management integrity measures that are supported by the general and specific man-

Figure 34

Number of Pending Material Weaknesses

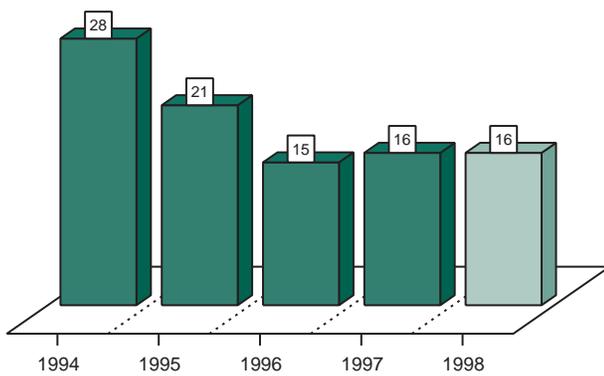
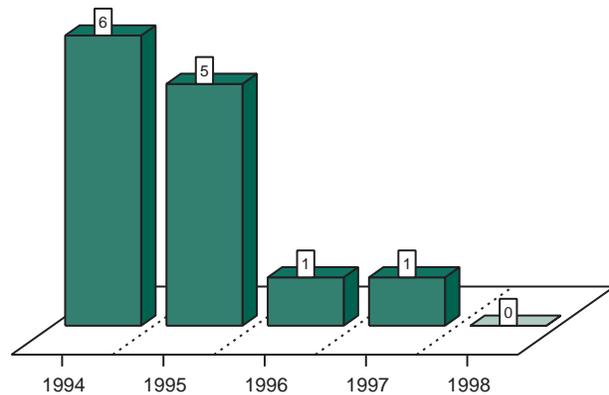


Figure 35

Number of Accounting System Non-Conformances



agement control standards prescribed in OMB Circular A-123. A unique feature of the automated approach is that it provides for identifying areas of both potential material deficiencies and best practices.

The automated approach utilizes a comprehensive questionnaire developed by the Lab Team and refined by a Departmental customer focus group. The questionnaire is modified to provide additional program-specific questions for each individual program assessment. The assessment is conducted electronically over the e-mail network using an off-the-shelf surveying and analytical software tool.

An initial pilot test of the new automated approach was conducted in one bureau during 1997 and demonstrated significant resource savings potential and improved results. The initial pilot assessment resulted in a 90 percent overall reduction in staff time associated with planning, conducting, analyzing, and reporting the results of a traditional assessment, as well as much improved diagnostic and executive-level reporting. At the request of Interior’s Management Control and Audit Followup (MCAF) Council, the automated assessment approach pilot test program was expanded to 13 program areas in 1998. The results of the 1998 pilot test program were generally consistent with the initial pilot test, but identified several instances where the questionnaire and scoring system needed modification and enhancement. The revised questionnaire will again be pilot tested in multiple bureaus and programs in 1999, with the understanding that in the future the new automated assessment approach will be adopted Departmentwide as the cor-

nerstone of the re-engineered Management Control Program.

Due to the significant resource savings and results achieved in the pilot test of the automated assessment approach, the Lab Team and the automated assessment approach were selected to be recipients of Vice President Gore’s prestigious “Hammer Award” in 1998.

Results of the 1998 Management Control Program

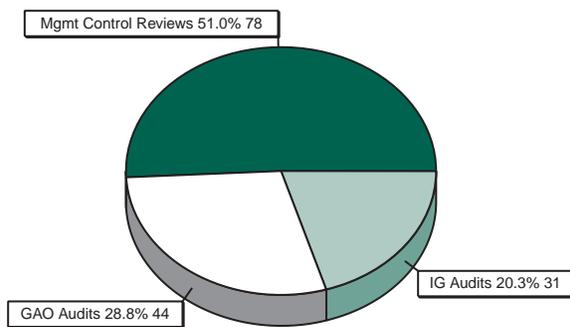
Interior conducted its annual assessment of the effectiveness of its management, administrative, and accounting systems controls in accordance with the FMFIA and OMB guidelines. Interior conducted assessments of management controls in its programs and administrative functions, and relied on the findings and results of Office of Inspector General internal program audit reports and GAO program audit reports issued during the year. In addition, Interior relied on the results of the financial statement audits conducted by the OIG under the auspices of the Chief Financial Officers (CFO) Act of 1990, and the Government Management Reform Act of 1994. *Figure 36* summarizes the distribution of 1998 assessments.

Biennial Review of Fees

The Chief Financial Officers Act of 1990 requires biennial reviews of agency fees, rents, and other charges imposed for services and things of value it provides to specific beneficiaries as opposed to the American public in general. The objective of the reviews is to iden-

Figure 36

Distribution of 1998 Management Control Assessments



tify such activities and begin charging fees, if permitted by law, and to periodically adjust existing fees to reflect current costs or market value so as to minimize general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-Federal beneficiaries.

As part of the 1998 Management Control Program, Interior conducted a biennial review of its fee programs and noted that User Charge revenues have substantially increased, due in part to the conduct of such reviews. While there is not a requirement to disclose such reviews in agency accountability reports, the General Accounting Office, in a 1998 report, recommended that agencies acknowledge whether the biennial reviews were conducted.

New Material Weakness

Interior’s MCAF Council reviewed and analyzed the results of the 1998 assessment process and concluded that one new material weakness should be reported. The new material weakness is:

- Inadequate Departmentwide maintenance management capability.

This material weakness is a Departmentwide material weakness impacting most bureaus. As such, it has been characterized by the MCAF as a “mission critical” weakness. A description of the weakness and corrective action plans are summarized later in this section.

Corrected Material Weakness and Accounting System Non-Conformance

During 1998, Interior completed corrective action on one mission-critical material weakness and the remaining accounting system non-conformance carried forward from 1997.

The material weakness corrected was the Bureau of Land Management’s Inspection and Enforcement Program for Fluid Minerals which was first reported in 1989. In correcting this weakness, BLM developed and implemented a re-engineered Inspection and Enforcement strategy, recruited and trained additional inspectors, increased the number of comprehensive annual inspections, and implemented new automated production verification audit procedures.

The accounting system non-conformance corrected was the National Park Service’s Property Accounting System which was first reported in 1986. In correcting this non-conformance, the NPS completed a reconciliation of general ledger and subsidiary ledger property balances and implemented the Federal Financial System Fixed Asset module, thereby providing an electronic interface between the subsidiary and general ledgers.

Pending Material Weaknesses

Interior will carry forward 16 pending material weaknesses to 1999. These 16 pending material weaknesses, and their respective planned correction dates are listed in *Figure 37*. Interior expects to complete corrective actions on four of these material weaknesses (25 percent) during 1999.

Mission Critical Material Weaknesses

OMB Circular A-123 reporting guidance requests that each agency identify and report on the most critical material weaknesses affecting the agency. In response to this reporting requirement, Interior’s MCAF has identified 7 of its 16 pending material weaknesses as “mission critical weaknesses”—those material weaknesses that prevent Interior from fulfilling a programmatic mission or strategic goal, and that warrant senior management focus and attention and resource priorities throughout the corrective action process.

Figure 37

| Pending Material Weaknesses Carried Forward to FY 1999 | | |
|--|--------|------------|
| Title of Material Weakness/Non-conformance | Bureau | Correction |
| Inadequate Management of Trust Funds * | OST | FY2003 |
| Deficiencies in Real Property Management | BIA | FY2003 |
| Inadequate Debt Collection | BIA | FY2002 |
| Inadequate Acquisition Management Program | BIA | FY1999 |
| Irrigation Operations and Management | BIA | FY2002 |
| Inadequate Records Management * | BIA | FY2000 |
| Inadequate Range Monitoring * | BLM | FY2000 |
| Administration and Oversight of the Wild Horse and Burro Herd Management Program | BLM | FY1999 |
| Management and Oversight of the Land Exchange Program | BLM | FY2000 |
| Irrigation of Ineligible Land * | BOR | FY2002 |
| Deficiencies in Administration of Miscellaneous Revenues | BOR | FY1999 |
| Lack of Accountability and Control Over Artwork and Artifacts * (BIA, FWS, NPS, BLM, OSM, MMS, BOR, and USGS) | DEPT | FY2000 |
| Incomplete/Inaccurate Data in the Procurement Data System | BIA | FY1999 |
| BIA Facilities Program | BIA | FY2000 |
| Inadequate Departmentwide Maintenance Management Capability * | DEPT | TBD |
| Needs Assessment and Cost of Constructing New Housing * | NPS | FY2000 |

* = Mission Critical Weakness

Collectively, the identified mission critical weaknesses could adversely impact the safety of employees and other citizens, prevent the collection and distribution of royalties and other funds owed to the Government and Native Americans, prevent the efficient use of programmatic resources, damage the environment, place financial resources at risk, prevent the timely repair and maintenance of government property, and preclude the identification, collection, and preservation of irreplaceable historical artwork and artifacts.

Interior recognizes the importance of correcting these mission critical weaknesses in a timely manner. Corrective action plans with key milestones, target dates, and accountable officials have been established and approved by Interior. The MCAF Council and senior program management officials will continuously monitor corrective action progress for each mission critical weakness. Periodic progress review meetings will be held with the accountable officials to ensure timely completion of corrective actions. The seven mission critical material weaknesses and corrective action progress to date are:

1. Inadequate Management of Trust Funds - Management of Individual Indian Monies (IIM), Tribal Trust Funds, and other Special Trust Funds is insufficient to properly maintain and administer the approxi-

mately \$3 billion fund. The trust funds lack effective internal controls, dependable accounting systems, and reliable accounting information. The Office of Trust Fund Management has been reorganized to allow for more effective management improvements through establishment of a Quality Assurance Division and consolidation of accounting functions under the Accounting Division. There is an ongoing effort to standardize and verify Individual Indian Monies system data from trust resource records. Recent progress includes awarding a contract for a commercial off-the-shelf trust funds accounting system.

2. Inadequate Records Management - The Bureau of Indian Affairs records system is inadequate to properly administer the records management function. Special emphasis is given to fully implementing a corrective action plan and ensuring proper handling of trust-related records. Trust fund records will be transferred from the BIA to the Office of the Special Trustee (OST). Additionally, a budget has been developed for a 3-year improvement period and five record management positions were filled in 1998.

3. Irrigation of Ineligible Land - The Bureau of Reclamation has not given sufficient priority to identifying and resolving instances of Federal water being delivered to ineligible lands on at least 24 projects in

eight states. Consequently, the Federal government has provided unintended benefits to water users who did not pay the full cost of supplying the water used to irrigate ineligible lands. An internal assessment of unauthorized use of Federal project water was conducted to define the data requirements to determine the extent to which ineligible lands received Federal project water. Also, a methodology for repayment of financing costs for supplying water to ineligible beneficiaries is under development, including expansion of programs and policies promoting efficient district water use and pricing.

4. Needs Assessment and Cost of Constructing New Housing - In the past, the National Park Service did not assess housing needs throughout the National Park System in a consistent manner. Concerns were raised about the high cost of new housing constructed and about providing housing in parks where it was not mission critical. As a result, it is not possible to determine whether the current NPS housing assessment, which is the driving force for new housing construction, is reliable. A contract has been awarded to conduct a comprehensive housing condition and needs assessment study at all parks with five or more housing units, which is scheduled to be completed by the end of January 1999. In addition, a study was completed in 1998 that reviewed all NPS existing policies, procedures, and practices which influence the cost of housing construction.

5. Inadequate Departmentwide Maintenance Management Capability - Interior lacks consistent, reliable, and complete information to plan for, budget, and account for resources dedicated to maintenance activities. As a result, Interior does not have the needed information to report on deferred maintenance in its financial statements as required by the Statement of Federal Financial Accounting Standard No. 6, "Accounting for Property, Plant, and Equipment." Interior established a Maintenance Work Group during 1998 to assess the current capabilities of Interior to capture maintenance activities information. The Work Group has identified the functional and system requirements that an ideal maintenance management system would need to address the optimum needs of Interior bureaus.

6. Lack of Accountability and Control Over Artwork and Artifacts - Accountability, control, and protection of artwork and artifacts administered by the bureaus and offices throughout Interior are inadequate to ensure the preservation of these objects. Until improved policies, procedures, and controls are implemented, the risk of significant loss or damage of irreplaceable artwork and artifacts will remain high.

Interior has developed and implemented a revised museum property strategy and related policies and procedures. In addition, plans to implement appropriate infrastructure in each bureau have been developed and approved. Progress in implementing Bureau plans has not proceeded at the pace originally anticipated due to resource restrictions. As a result, Interior's strategy has been revised, and each Bureau is expected to implement its plan within broad targets defined by Interior. The March 2001 planned correction date assumes all bureaus will have program infrastructures in place with a solid record of achievement in reducing their backlog in accessioning and cataloging their museum property.

7. Inadequate Range Monitoring - High priority allotments have not been consistently monitored. As a result, many grazing decisions are being delayed because of a lack of quality monitoring data, and decisions that are issued are not adequately documented or supported by monitoring data. Successful program performance is at risk until these deficiencies are corrected.

Progress to date by the Bureau of Land Management includes the issuance of Instruction Memorandum No. 96-172, which transmitted interim Standards and Guidelines for Rangeland Health and Grazing Management, the conduct of Guidelines Implementation Workshops, development of a final Standards and Guidelines Implementation Policy, and the conduct of a National Validation Review on Healthy Rangelands. A status report with recommendations to be implemented by BLM field offices is expected to be released in 1999.

Summary of Management Controls - Section 2 of the FMFIA

Progress in correcting material weaknesses is summarized in *Figure 38*.

Figure 38

| Number of Material Weaknesses | | | |
|-------------------------------|----------|-----------|---------|
| Period Reported | Reported | Corrected | Pending |
| Prior Years | 158 | 146 | 12 |
| 1995 | 1 | 1 | 0 |
| 1996 | 0 | 0 | 0 |
| 1997 | 3 | 0 | 3 |
| 1998 | 1 | 0 | 1 |
| Total | 163 | 147 | 16 |

Summary of Financial Management Systems - Section 4 of the FMFIA

While Interior has corrected all previously reported accounting system non-conformances, and provided assurance that its financial systems generally conform to governmentwide standards, Interior is still aggressively pursuing initiatives to ensure that:

- all financial systems are linked electronically;
- the migration to a single, primary accounting system is achieved; and
- data integrity and consistency are provided for in all financial system components.

Progress in correcting material non-conformances is summarized in *Figure 39*.

Figure 39

| Number of Material Non-Conformances | | | |
|-------------------------------------|----------|-----------|---------|
| Period Reported | Reported | Corrected | Pending |
| Prior Years | 64 | 64 | 0 |
| 1995 | 0 | 0 | 0 |
| 1996 | 0 | 0 | 0 |
| 1997 | 0 | 0 | 0 |
| 1998 | 0 | 0 | 0 |
| Total | 64 | 64 | 0 |

Audited Financial Statement Results

The results of the 1998 audited financial statement process are summarized in *Figure 40*. At the time of report publication, the Department and five bureaus had received unqualified audit opinions on their respective financial statements. As noted in the table below, there were instances where exceptions and material weaknesses/reportable conditions were noted with respect to internal controls and compliance with laws and regulations. Reportable conditions are those matters coming to the auditor’s attention, that in the auditor’s judgment, should be communicated to management because they represent significant deficiencies which could adversely affect the entity’s ability to meet specified internal control objectives. Material weaknesses are reportable conditions in which internal control processes do not reduce to a low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely manner.

The Department is working with the bureaus to develop and implement timely corrections for all audit qualifications, material weaknesses, and reportable conditions.

Objective: Achieve and maintain unqualified (clean) audit opinions on all financial statements prepared by Interior.

Performance Measure: Audits with unqualified audit opinions (see *Figure 40*).

Figure 40

| Summary of FY 1998 Financial Statement Audits | | | | |
|---|---------------------------------|--------------------------------------|--|----------------------------------|
| | Opinion on Financial Statements | Exceptions Noted on Internal Control | Exceptions Noted on Compliance with Laws and Regulations | Opinion on Compliance with FMFIA |
| Department | Unqualified | Yes | Yes | No |
| FWS | Unqualified | Yes | No | Yes |
| USGS | Unqualified | Yes | No | Yes |
| BIA | * | * | * | * |
| BLM | Unqualified | Yes | No | Yes |
| MMS | * | * | * | * |
| NPS | * | * | * | * |
| BOR | Unqualified | Yes | No | Yes |
| OSM | Unqualified | No | No | Yes |
| OS | * | * | * | * |

* At time of publication, audit opinions had not been issued for these bureaus.

Audit Followup Program

Interior views audit followup as a fundamental part of its ongoing effort to strengthen standards of accountability and increase the efficiency and effectiveness of its programs and operations. As noted in *Figure 41*, Interior was the recipient of a substantial number of audit and review reports during 1998 requiring followup audit actions, including 382 Single Audits, 89 Office of Inspector General program and contract audits, and 39 General Accounting Office audits. Audit followup actions included tracking the implementation of audit recommendations, monitoring the recovery of disallowed costs, and resolving disputed findings and recommendations.

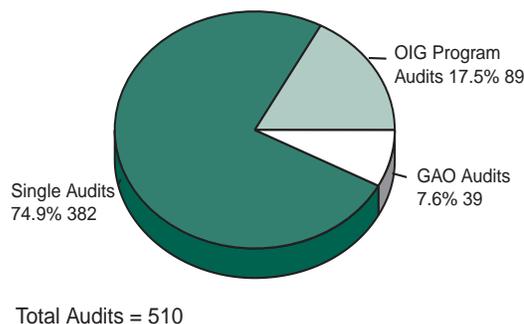
During 1998, Interior continued to make significant progress in implementing audit recommendations and closing audits, and in recovering disallowed costs and other funds owed the government. Interior achieved a 31 percent overall closure rate on OIG audit reports and a 56 percent recovery rate on disallowed costs, which represented improvements over the prior fiscal year.

Single Audits

Interior provides over \$2 billion each year in funding for grants, cooperative agreements, Indian Self-Determination contracts, and Self-Governance Compacts to State and local governments, Indian Tribes, colleges and universities and other nonprofit organizations. Under the provisions of the Single Audit Act, the grantees' financial operations, management control structure, and level of compliance with applicable laws and regulations must be audited each year. All Single Audit reports are now forwarded to and screened by the Federal Single Audit Clearinghouse (Clearinghouse). Those Single Audit reports with findings and recommendations requiring OIG review and audit followup actions are then forwarded to the OIG for review and distribution to the appropriate bureaus. Each bureau is responsible for meeting with grantees and negotiating resolution of the deficiencies identified in the audit reports, and for determining the allowableness of any expenditure of Federal funds which has been questioned by the auditors.

Figure 41

Audit Follow-up Workflow



Reaching Timely Management Decisions on Single Audits

Management decisions (agreement on actions to implement audit recommendations between the bureau and grantee) are expected to be agreed to within six months from receipt of the audit report. If an audit results in disallowed costs, bureaus are responsible for collecting the disallowed costs from the grantees. In 1998, 319 of 382 or 84 percent, of the Single Audits received from the Clearinghouse achieved management decisions within six months from the issuance date of the audit report.

Objective: *Achieve management decision on all single audits within six months.*

Performance Measure: *Audits with management decisions within six months.*

Collecting and Offsetting Disallowed Costs

Interior made good progress during 1998 in closing audits and recovering disallowed costs. By the end of the year, 43 of 53 audits were closed (81 percent) and \$3.76 million of the \$6.7 million in disallowed costs were recovered (56 percent).

Internal Audits

Internal audits are audits conducted by the Office of Inspector General of the programs, organizations, and financial and administrative operations of Interior. One category of internal audits are those audits on how the

OIG presents recommendations to improve efficiency and where funds can be put to better use (FBU audits). Interior tracks the successful implementation of all FBU audit recommendations and FBU dollar estimates agreed to by management. Interior progressed in implementing recommendations and closing FBU audits during 1998, as 22 of 66 audits were closed (33 percent). The closed audits involved \$3.2 million of FBU funds.

General Accounting Office Audits

The GAO audits are a major component of Interior’s audit followup program workload. During 1998, a substantial number of GAO reviews were underway or initiated. There were 73 reviews in process during the year, of which 34 were terminated without issuance of a letter report or other work product. In addition, there were 27 draft reports in process and 39 final audit reports issued with 18 recommendations. *Figure 42* summarizes the audits by major subject area. Interior successfully implemented 83 percent (15 of 18) recommendations by the end of fiscal year. The remaining recommendations involve actions that could be cost prohibitive or long-term implementation plans; these are being reevaluated by Interior.

Figure 42

Distribution of GAO Audits

By Major Subject Areas (Total of 39)

